

Message Text

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43

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: GOVERNMENT 1975 GNP PROJECTIONS

1. IN AN EFFORT TO SET THE FRAMEWORK FOR UPCOMING WAGE NEGOTIATIONS, THE ECONOMICS MINISTRY HAS SUBMITTED TO THE MANAGEMENT/LABOR/GOVERNMENT "CONCERTED ACTION" COMMITTEE A NUMBER OF ALTERNATIVE PROJECTIONS (SO-CALLED "ORIENTATION DATA") OF HOW THE ECONOMY MIGHT DEVELOP IN 1975 GIVEN DIFFERENT ASSUMPTIONS CONCERNING THE DEVELOPMENT OF GROSS INCOME FROM SALARIES AND WAGES. THESE PROJECTIONS ARE SUMMARIZED

PERCENTAGE INCREASE FROM PRECEDING YEAR

	1974	1975
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GNP, REAL	1 1/2	2 - 3 L/2
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GNP, NOMINAL	8	9 -10
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GNP DEFLATOR	6	5 1/2 - 7 1/2
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CONSUMER PRICES (NATIONAL

ACCOUNTS CONCEPT) 7 1/2 5 1/2 - 7 1/2

GROSS INCOME FROM BUSINESS

AND PROPERTY 1 1/2 5 -10

GROSS INCOME FROM WAGES

AND SALARIES 10 1/2 8 1/2 -10 1/2

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RATE OF UNEMPLOYMENT

(PERCENTAGE OF LABOR FORCE) 2 L/2 2 L/2 - 3

2. ACCORDING TO THE MINISTRY THE HIGHEST 1975 REAL GROWTH (3.5 PERCENT) AND LOWEST RATE OF PRICE INCREASES (5.5 PERCENT) CAN ONLY BE ACHIEVED IF THE GROWTH IN GROSS INCOME FROM WAGES AND SALARIES CAN BE HELD TO 8.5 PERCENT WHILE BUSINESS INCOME IS ALLOWED TO INCREASE 10 PERCENT IN ORDER TO STIMULATE INVESTMENT. THE MINISTRY APPARENTLY CONSIDERS SUCH A LIMITATION ON WAGE INCREASES TO BE UNREALISTIC, HOWEVER, AND THEREFORE SUBMITTED AN ALTERNATIVE PROJECTION WHICH ALLOWS FOR A 9.5 PERCENT INCREASE IN INCOME FROM WAGES AND SALARIES AND A 9 PERCENT INCREASE IN BUSINESS INCOME. THIS MODEL RESULTS IN 3 PERCENT REAL GROWTH, 6.5 PERCENT PRICE INCREASES AND 2.5 PERCENT UNEMPLOYMENT AND SEEMS TO BE THE ONE WHICH THE MINISTRY HOPES TO PERSUADE LABOR AND MANAGEMENT TO ACCEPT AS SETTING THE GENERAL PARAMETERS FOR THE UPCOMING WAGE NEGOTIATIONS. TWO ADDITIONAL MODELS ARE DESIGNED TO SHOW THAT HIGHER INCREASES IN INCOME FROM WAGES AND SALARIES WOULD BE SELF-DEFEATING BY RESULTING IN AN OFFSETTING HIGHER RATE OF PRICE INCREASES AND/OR INCREASES IN UNEMPLOYMENT.
HILLENBRAND

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